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ABSTRACT

This testimony before the Senate Subcommittee on Housing and Urban Affairs focuses on the need for decent, affordable housing. It reviews the loss of monies for federally assisted housing units and projects the consequences in the deterioration of the quality of life for many Americans. Because of budget cuts enacted during the Reagan Administration, the number of federally funded units completed has dropped by 100,000, leaving the poor, homeless, and the middle class unable to afford their own homes. Testimony from realtors, developers, economists, community leaders, and lending agents is presented. Some of their suggestions were the following: (1) increase the budget for housing and housing programs; (2) establish a more comprehensive policy which considers the needs of low income people; (3) give incentives to private enterprises which put a priority on housing rather than on commercial buildings; (4) plan mechanisms to foster partnerships between the Federal Government and local groups involved with housing; (5) establish a national homeowners trust fund to help working people with down payments; (6) amend tax laws to create incentives for developers of low income housing and multiple unit rental housing; and (7) support the Homeless Persons Survival Act. (VM)

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S. HRG. 100-279

THE NEED FOR DECENT, AFFORDABLE HOUSING

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

THE IMPENDING LOSS OF HUNDREDS OF THOUSANDS OF FEDERALLY ASSISTED HOUSING UNITS THAT MAY CAUSE MANY LOW INCOME FAMILIES TO BECOME HOMELESS AND OUT ON THE STREETS

JULY 2, 1987—LOS ANGELES, CA

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

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THE NEED FOR DECENT AFFORDABLE HOUSING

THURSDAY, JULY 2, 1987

U.S SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Los Angeles, CA.

The committee met at 9:30 a.m. in the U.S. Federal Building, 300 N. Los Angeles Street, 8th floor, Los Angeles, CA, Senator Alan Cranston, presiding.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. Thank you for taking this morning to be with us and to share in the opening step in what is hoped to be a very important process relating to the housing needs of our country. This morning's hearing inaugurates a national effort to develop a fresh new framework for this country's housing policy.

I should note that the first Senate Housing Subcommittee hearing on national housing policy is being held in the U.S. Bankruptcy Court. It wasn't planned that way. But it's fitting because our current policy is certainly bankrupt.

The need for decent housing has never been more pressing. After rising steadily for decades, the rate of home ownership has been dropping since 1980. Young American families find the dream of home ownership drifting beyond reach. Poor families increasingly find the nightmare of unfit housing in wretched neighborhoods with outrageous rents. For the first time in memory we have homeless families on the streets.

The impending loss of hundreds of thousands of Federally assisted housing units will make the low income housing problem even worse. After years of neglect, I think the time has come and the climate is right for a responsible and effective housing policy to be developed.

During the next 2 years I intend to move the housing need of our people back up to the place it deserves, high on the national agenda. As part of that effort I'll introduce a landmark housing bill early next year. It has no shape or substance now. Our purpose is to work together to figure out what should be in that bill. So we're beginning today an extraordinary, unprecedented, broad-based effort to develop that legislation.

The effort will have 4 parts. 1. Major housing organizations are being invited to submit specific suggestions in writing by October 5,

1987. The Housing Subcommittee will reprint those suggestions for wide distribution.

2. Massachusetts Institute of Technology will form a network of the country's most thoughtful housing professionals. Twenty major papers on housing issues have been commissioned and 3 day-long conferences will be held in the Capitol. In late October and early November the papers will be published in book form.

3. I've asked a very good friend of mine, Jim Rouse (PH.), to chair a housing task force of thoughtful, experienced practitioners in housing development and related fields. That task force will meet every 2 weeks beginning in late September in an intensive series of 6 two-day sessions to recommend strategies for making decent, affordable housing available to all our people.

4. And finally, the Senate Housing Subcommittee will hold a series of hearings in Washington and elsewhere around the country to focus attention on housing policy and to refine and develop legislation.

We're beginning the most ambitious effort since the 1940's to build a new national housing agenda. Frankly, I don't expect to make whatever we come up with immediate law. If we could do that next year that would be great. I'm doubtful that we could do that. I think we probably will need a new administration that would be more supportive of housing needs in terms of their being met.

I would hope that we lay the groundwork in bringing it through this year and before next year getting as far as we can legislatively and introduce this issue into the debate next year as to what our country should be doing with the next administration and the next Congress on into the 1990's, a housing policy for the 1990's. If we could enact that in 1989 or 1990 and get going, I think that would be wonderful.

California is clearly the place to begin. Our State has experienced all of the Nation's housing problems. Californians have also been at the forefront with a vision and creativity needed to make affordable housing available, for the task is most difficult. I intend to make sure that the problems with California and in the cities of California are taken fully into account as we develop a national housing policy.

I'm particularly pleased that each of you are able to be with us today. This is a remarkable assembly of people with knowledge of the housing system, how it works, and people who share a commitment to decent, affordable housing.

I want to concentrate on several topics this morning. This hearing should be open, simply an informal exchange of ideas and experiences unlike the normal Congressional hearing where you have witnesses who give prepared statements and then answer often prepared questions. I just want to have give and take between all of us as we explore this matter. I am confident that today will begin a long and valuable collaboration that can lead to better housing.

I think that we should perhaps start off with just a couple of issues. Suppose that we begin by my asking you for your perceptions of the most important changes in the last 6 years or so that have affected Californians who were looking for decent, affordable housing. What have been the major developments that have ad-

versely affected, as most of it certainly has adversely affected, the capacity to have housing available for those who need it?

Mr. PAULSON. There'd be little doubt that the greatest impact would be felt through Ronald Reagan and that is a very negligent act nationwide. For this country, as one very specific example in 1981, the last year of the Carter budget, there were 119,000 units of section 8 mod rehab budgeted and completed. In 1986, the last year in which we had a complete record, that number is down to 19,000 from 119,000. That's a program that I am more interested and familiar with but it is not atypical. That is true pretty much across the board in housing programs.

Mr. TUITE. I think it goes on from there, though, that which we don't have anymore. What we've lost is a sense of a national aggressive policy with any number of issues, not only in terms of the volatile credit market but we've suffered the tremendous integration and migration that we have seen here in California, and we've suffered from the pullback of national subsidies for housing, with tremendous impact on the very low income.

Today we're looking at a whole new category of people who are suffering. We talk about street people now and about urban campgrounds providing some way either they will address issues of the homeless. We're talking about a whole new generation of barrage people. A new phenomenon is sparking up. People looking for some way of getting shelter. We have, I think, pressed this whole issue of the safety net to a point where it has come, and it has got to come, to an end, by establishing a comprehensive domestic policy that looks at housing and looks at all the other aspects and implications of housing needs of the very low income.

Mr. NORRIS. Specifically the Federal Government insurance programs to local cities has dried up. That money was used for infrastructure. In California we have proposition 13, which would make it virtually impossible for a local municipality to tax citizens. But now every time infrastructure is needed whether it be a fire station, a police station, a library, a school system, a stoplight, a freeway overpass, the first thing that local government does is pass that on to the home builder in the form of fees in order to get their approval, which squarely puts all new infrastructure on the back of the individual purchaser.

Federal revenue sharing is gone. Proposition 13 will not allow taxation. So we now have a situation where a very small segment of our population is paying for all new interest rates. One person buys a home across the street from one that was built recently, one pays a fee to send their kid to school, another does not. It's totally inevitable and the new home purchaser is now paying for all the new.

Mr. SHINE. It's a whole slice of people that can't buy. When you talk about affordable housing it's a matter of how you define it. If you define affordable housing as only housing that goes to the very, very lowest spectrum of the economic base of our poplulation that's one thing, but the young people that are wearing thongs and jeans and carrying a kid under their arm are going to try to buy their first house, find that the $18,000 house is now a $92,000 condominium and become part of the new group of people who can no longer

afford their own homes. So you have all these new family formations that are unsatisfied.

IRA was right, a big piece of the change in the last 6 years has been the need—the change in how infrastructure gets paid for, which is now on the back of the new homeowners that are yet to come. The level playing field that was introduced by St Germain, which took away from the savings and loan the edge that allowed them to try and put their money where it's supposed to be put, which is mortgages. Now whether it's a savings and loan or whether it's a thrift or, depending on where you are, a bank, everybody's trying to get the other guy's business.

When FHA was formed in 1934, the idea for backing mortgage thrifts and savings and loan was to provide mortgage money. The bottom line is that if you want more housing that's affordable, and I don't mean necessarily for the very, very, very poor who may need assistance, but for the broad-based people who want a piece of the action by owning their own place, I think come to the financing market.

Mr. PAULSON. I think the Government has been involved in housing and creating housing in this Country since the early 1930's. I think the fact that we're the best housed Nation on earth has been because Government involvement. The last 5 or 6 years the Government has tried to completely pull out of housing and just leave it to the private sector. I don't think there's any way in the world the private sector confirms housing for this Nation.

The affordability here in California, as we released from yesterday, is down to 31 percent. Only 31 percent of the people, the average person in the State, can afford to buy a home. That's terrible, particularly terrible when the State is in the National average of 47 percent and again I could certainly relate it to—for the first time in 50-some-odd years there's less homeowners in this country.

I think it was related to complete deregulation of the financial markets, with interest rates completely in the hands of Wall Street and the real interest rates today, the real actual interest rates, are the highest we've ever had. That's forcing a lot of people out of homes. Particularly in financing, the private sector's pulled out of the low down payment factor, the M.I.P. system went broke, and so they pulled out of the home down payment.

Then again, coupled with that, we've had the attack on the FHA. We've had attacks on the program that's tried to furnish housing in this country for 50-some-odd years when the average family could buy a home. I think the attacks of the administration on the FHA and the VA Program are absolutely a shame. It's one of the housing shames of this Nation, that this Nation has turned her back on the young families buying homes, not to give them the same opportunity as the older fellar with gray hair, or no hair, whatever the case may be. I really believe that we've got to get back to—that there's a certain sector of the housing that can be financed and taken care of in the private sector. But there's always been and there always will be, a strong role for Government in housing in all aspects.

Patricularly, I want to thank the Senator for increasing the FHA up to 101,000 in his housing bill. I'd like to see it 150. I have to leave early and I want to get a few points in here if I could, Sena-

tor. I think you referred to the administration also trying to freeze the limitation on Freddie and Fannie or lower them. It would be absolutely a shame in this State, because of the high prices we have here and some of it's our own fault with the no growth. But if anything, we need the Freddie and Fannie limits raised and we need the FHA limits raised. We need to make sure that the administration does not stop the finance of the closing costs and other things in the loans that makes that affordable for the young family.

It's also hurting a lot of the ethinc groups. We had a different deal here 4 or 5 or 6 years ago, when nobody wanted any little, teeny kiddies anymore, and we had a little different housing makeup. Now we're finding out in certain ethnic groups, and the younger, more people are having families. Some of the Oriental groups that have moved in and other certain ethnic groups with large families are having just a terrible time trying to find housing.

I'd just like to commend the Senator and his staff. The California Association of Realtors helped develop this National housing policy, which we presented to you, and in association with the State I'm sure we will support you 100 percent on anything we can do to keep Government involved, and make it easier for young people to buy.

Senator CRANSTON. Thank you very much.

Andy.

Mr. RAUBESON. Yes, Senator, carrying on in that, it isn't just on the one end. HUD is going hell-bent wanting to allow those projects that have such mortgages to prepay those mortgages. I'm sure this has already come to your attention.

Senator CRANSTON. Yes.

Mr. RAUBESON. With urging from the Congress, the U.S. Department of Housing and Urban Development has done a survey, and they say that there are 740 projects nationwide likely to repay. Amazingly, the national office says 311 of those 740 projects are in California. Over 40 percent of them. So you have people who are in subsidized housing paying 30 percent.

There is HUD oversight on the condition of the housing, on who is allowed in, whether they truly are low, moderate income, and that they are only paying 30 percent of their income. If there is prepayment, that oversight is lost. I think this administration is rushing into that to do that.

There has been a call for a 1-year moratorium to allow a plan to be worked out if there is to be prepayment, ethics controls remain, the Government could put up that money on the front end to buy low income housing for people. There are those of us that would like to see that in the gains.

One of the good things we talk about, well, maybe in 1981 there was a big change. Well, there's been another big change. That is that the Democratic majority has been reestablished in this Senate, and you are sitting as chairman of this committee. I would hope that you could have an omnibus bill, considering things like a 1-year moratorium on the prepayment. Because that's going to be a major factor to many elderly, handicapped and other low income people in this country.

Mr. SINGER. I'd like to echo what Andy said. Our projections for California alone show between 100,000 and 150,000 units eligible and likely to be converted between now and the end of the decade.

From representing a realtor trade association, our interest, frankly, is a little more in the homeownership sector. We certainly recognize that if something is not done on the low end to provide adequate housing shelter and to replace those units either with recycling or new construction that that pressure is going to be a pressure that will be on the marketplace as a whole.

I think in light of that also I think we have to understand that some of the major changes that are going to affect us are private sector changes. We are just now starting to see the very beginning effects of tax reform in terms of the number of new multifamily units that are constructed. From a tax reform standpoint that will exacerbate, if not the low end, certainly the moderate end of rental housing.

We estimate that there will be a slowdown of upwards to 20 to 40 percent new construction privately-financed housing. On top of that, one of the elements of the tax bill, beyond the investment incentives for private sector development, has been the changes in multifamily I.D.B.'s and mortgage revenue bonds, both for ownership and rental. From our standpoint the number of multifamily I.D.B.'s in the State of California will be reduced between 40 and 65 percent of those I.D.B.'s. That type of private sector, public sector cooperation really led to a surge in apartment construction over the last 3 years, and created for the first time in recent memory virtually an adequate supply in most parts of the State, a moderation in rents for moderate income home buyers, and a chance to use that moderation of rents to accumulate down payments.

We think that situation, which again is the first sharp reversal, a favorable reversal, in the last 4 or 5 years, is now going the other way. I'm in a position where we tend to think that that's going to be extremely negative to the rental market combined with the cutbacks on public's financing and, in the very short run, start to make itself felt in rents.

Senator CRANSTON. John.

Mr. SMOCK. Senator, I'd like to follow up on that, if I may, with a comment on the involvement of Government, because no discussion of housing policy for the Nation would be complete without a discussion of rental housing in California.

Forty-five percent of the households are rental households. About 40 percent of the California population lives in rental housing. A large part of that not because of economic circumstances forced upon them, but because they choose to live in decent, safe and affordable rental housing.

The Tax Reform Act that was just referred to has had a deleterious effect on the private sector involved in the construction, financing, and development of rental housing.

I checked in preparation for this hearing just yesterday, with our State Department of Housing and Community Development, comparing 1986 and 1987 housing starts, and particularly multihousing starts, and they are startling. In 1986 there were 314,727 permits issued for housing starts in which 168,187 were multifamily.

In 1987 this is the draw: 64,000 total permits of which only 28,000 were multifamily housing starts. That is a gross problem for California because the needs in California are great. They exceed 150,000 units a year. If this trend were to continue we will be in even worse shape than I think most people recognize we are already providing decent, safe and affordable rental housing, which is a major, major contributor to housing, not only in California, but nationwide.

Senator CRANSTON. Before we go on to another point, I'd like to switch the discussion. I want to introduce Don Campbell in case you don't all know him. He's seated over here. Don is the Staff Director for the Housing Subcommittee. He will be superintending the staff work as we move along on this effort. Whenever you have any thoughts you want to express on any aspect of this, please ask him directly.

Don, don't you hestitate to participate fully in this discussion.

Mr. CAMPBELL. I won't.

Senator CRANSTON. If somebody says something you want to follow up on, why be sure to do so.

Mr. LEWIS. Recently, I learned that the Government now is thinking of taxing all of the limited partnerships and corporations, and probably they should be. But then there was a comment that that rule should apply to all oil investments. The remark was made that oil investments are more passive. So we found we can't tax the exempted oil investments because those are active investments. Now we are told we can tax them. But if Congress would straighten out these tax rules, I think there'd be a lot more incentive for the apartment houses. That would greatly relieve the problem.

Mr. NORRIS. There are two major provisions. The passive loss is one, and the insolvent sale is the other that has brought an absolute standstill to the development of rental housing and the churning effect that comes from the sale and upgrading of rental housing, because the Tax Reform Act of 1986 has been an absolute disaster in those two areas.

When you couple that with the small owner—and I want to emphasize that in California, which you are interested in, the owners are small owners. They average statewide about 12 units apiece. That is small ownership. They also manage very actively their own properties. California is somewhat unique in respect to that because some of the other States have very large holdings and have very professional management groups.

California is quite different in that owners in California tend to manage their own properties and are very actively involved. It is not by any essense of the imagination a passive activity to own a small apartment structure, when you are responsibile for the complete maintenance and upkeep individually of that. It isn't like owning stocks and bonds and having an investment in an oil company.

Senator CRANSTON. Yes, we recognize that there are problems created by the new tax bill, and there are also some other steps which should probably be taken to provide incentives that would be new and innovative in the tax bill.

Our problem is not insurmountable. But the problem is that it falls in the jurisdiction of another committee, Finance Committee.

So we're going to have to do some cross-fertilization from our committee to that committee, to try to get some things done. But we will undertake that as we develop specific costs for what we've done.

I'd like to move this on to a broader topic. In developing a major new housing bill, what are the most important objectives that the bill should have? What goal should we set out to meet? And what are the most important problems that we should address?

Please bear in mind, as we talk about this, the budget problems. No matter who's in the White House whether it's a Democrat or a Republican after the next election, we're still going to face severe budget problems and we can't expect to solve all the housing problems by just injecting many, many billions of new dollars into housing programs. I think we can get some new money but there will be limits. We have to look for ways that don't involve Government spending that can help deal with some of these problems, with the basic problems. So if we can move on to that.

Derek.

Mr. SHEARER. One thing I wanted to mention, Senator, is that most of the people here know that one of the effects of the Reagan cutbacks not intended by the administration, was to stimulate a lot of housing activity by local government and community groups and some State governments. I think that a lot of that has been very positive.

One of the things that I think is real important and could also help in terms of maximizing whatever Federal funds are available, is to build into the bill a mechanism for lots of local, private and public partnerships. We have here today a number of these nonprofit community development corporations or foundations that are involved in producing housing.

As you probably know we have a lot of private corporations through foundations that have provided funds. We have a lot of local governments who created new housing mechanisms. I think that that's probably the most creative thing that's come out of the Reagan years is to stimulate this local activity.

I think that there is a way to create a Federal funding and planning mechanism that brings together local groups with sources of private money, and uses a lot of these nonprofit organizations that already have staff that are not on Government budgets and have a lot of experience with community housing that we can really produce more housing per federal dollar than perhaps we did in the past, with some of our older programs, that I think, frankly, were quite inefficient.

Mr. FERNANDEZ. I'd like to add to that. I passed out to the members here a copy of a community based which I think the Senator is familiar with.

This essentially is a paper that has been drafted by the housing coalition and it does touch on what Derek mentioned. That basically is proposing that nonprofits be written into the upcoming Federal legislation. It's different in essence because it provides for more long-term affordability. It's asking for a 40-year period. It's asking for nonprofits to be written into the bill. I think one of the unique features is that it recognizes the need to have flexible terms to deal with local problems. So it's asking for the bill to look at both

grants and loans and I think very importantly the use of technical assistance dollars. You find in some communities nonprofits. While they're experienced, they do need some support. And there are organizations in the country like the Development Training Institute which has established themselves as very viable and credible training agencies.

So I would like the Senator to take a look at this. I passed copies around the table to my colleagues. We're asking right now for any review in helping.

Senator CRANSTON. Thank you.

Ira.

Mr. NORRIS. Senator, I have taken the liberty to prepare a list of things on various topics that possibly could affect the housing situation. Many of them may not be within the authority or preview of the Federal Government, but perhaps, we could put them on the table and find out which ones we can't.

First, I think you're aware the CIA issued a contribution made to construction and utility companies which is part of the tax reform equity in there, which is give or take, depending upon which utility we're dealing with, whether it be public or private, can add as much as $2,000 to the price of a new home.

We could require the State to fund school construction with general funds instead of putting it again on backs of homeowners. Disallowing zoning by initiative in California, you're much aware of the several counties and cities that are proposing initiates, to slow groups and to stop them and to make it very expensive.

The case in New Jersey, demanded that every community zone for housing of all types and all income brackets. I think that is important.

We require that infrastructure be paid for by the entire tax fund, the entire city, not just one small segment. That we require jurisdiction to process application for construction on a timely basis. It takes 2 to 3 years today to get a project approved.

If we prohibit actions by any agency that unfairly increase the cost of housing. The new rumors that we're hearing now, is that they'd like to add an air pollution element to the general plan and thereby creating another roadblock and another expense to build housing. I think air conditioning is being brought up as a new issue. It would convince the President not to override the housing—not to veto the housing bill, or however you want to term it, not to override it. That would be a big help because that bill has some very interesting aspects for our business.

Davis-Bacon, which is another controversial issue, increases the cost of residential housing under Federally assisted and construction costs, go up from day to day. I don't know what can be done about that but it's an issue perhaps to be discussed.

The mortgage revenue sharing program, the mortgage revenue bonds. That was a public-private partnership which allowed interest rates to be reduced and that is unfitting and no longer applicable. Those that are applicable, have such a narrow window that they're almost useless. We were looking at some in Riverside county just yesterday, and the income levels are structured in such a way that there's no window for the homeowner. And the installment sale—well, the Bond Program would be most of the install-

ment sale on that we were able to reduce interest rates by about 1 percent by just doing—by using that program.

These are just a number of things that I have taken the liberty of listing.

Senator CRANSTON. Would you give us that list.

Mr. NORRIS. Sure.

Senator CRANSTON. Thank you.

Mr. HARRISON. I'm sure, Ira, you realize it would not be total acceptance. As a matter of fact the L.A. Times front page, a couple of days ago ran an article on a study done by Carnegie-Mellon Institute that said, that Davis-Bacon projects made up for increased costs by increased productivity. That, in fact, they were more cost efficient than projects done by nonunion labor.

Mr. NORRIS. I don't want to debate that issue, but I can certainly tell you that's not true.

Senator CRANSTON. Grace.

Dr. PAYNE. I've been highly debating this past week and insert some of the other things that really need to be considered is management of the housing as it is developed. I believe even the homeowner needs some management training skills, and perhaps to the legislation, if we could put some certificates that could be given to those people after they have received some training on preparing and keeping these houses, managing it well both inside and outside, even to the renters that could—because we do have a competent program that is quite successful. If you could see the example of those houses around us, you could see how successful it has been in training people to really care for them.

Senator CRANSTON. Thank you.

Ted.

Mr. WATKINS. A few comments on some of the things that I've heard. No. 1, the question of community involvement in housing. I think that there has been in the past some avenues for community involvement in the HUD project from the sponsorship level. That sponsorship level basically puts the burden of seeing to it the housing is done, seeing to it the paperwork flows, seeing to it that the mortgage is paid, and those things, but it doesn't see to it that the community organizations share in the profits that are derived from the construction of housing, especially in the poor communities.

We just finished closing a project with HUD, that started in the Ford Administration and ended in 1987. With the closing of that project, our organization lost more than $2 million on 120 units of housing, because HUD refused to meet some of the obligations that had been promised to us.

I think that another thing about the whole question of all of where is the prices on housing, Watts Labor Community Action Committee, has built and owned more than 600 housing units. In the past 10 years, we have turned over to ownership to persons that lives in the house 50 units. Over the next 10 years, we will turn over the balance of the houses that are 20 years occupied to the people who are paying rent today.

What we found is that it was not the cost of the union labor that we use that ran the price of the house up three times, but it was the cost of doing business with the banking industry that ran the price of the house up three times. We could pay for the house, the

cost of the labor and material of the house, in 10 years. We were getting in our community 30- and 40-year mortgages that would more than triple the cost of the house. What our organization did was mortgage our own houses to our own organization, financed them ourselves and give the renter 150, $200,000 houses in 20 years free and clear. Even those that were subsidized by section 8, after 20 years the subsidies were no longer there and the people will own the homes.

I think that those kind of things have been part of the way we have approached the question of being honest with the tenants, and honest with the renters about what the real bottom line is, of whether or not we were really sincere in wanting to help the people who were poor, et cetera.

One of the other things I think that we have to look back at is how did we get started in Housing. We got started in Housing from a loan of 2 percent interest from the United Automobile Workers Union back in 1969, 2 percent for $2 million. We didn't have to pay a dime of that money back for 7 years. IRS, the Congress and everybody else looked to see if there were any loopholes so they could stop the loan. In 1970 they passed a law called ERISA, I think that's the name of it, and in that law, it says that no union funds can ever again be loaned to a community-based organization or anything else unless it's a prudent loan. That stopped any union funds which I think in America has some of the largest funds in any of the industries going. It stopped any of those funds from ever being used again to help poor communities to build up.

I think that those are some of the things that we need to be looking at in the housing bill, to see how do we alleviate some of those problems that we have created, to stop helping people who really need the help that we're talking about we want to give.

Senator CRANSTON. Thank you. Thank you very, very much.

Chan.

Mr. CHAN. I really strongly echo that. I think that we kind of look at the housing bill as the numbers are coming to the bill and what the Government is going to budget for the year.

Basically I think what's been happening in the last 6 years, our whole urban agenda has been set backwards. We don't have any confidence. We don't need that concern about what type of cities that we are going to be building. It's being totally left in the hands of private enterprises and the local government. You do what you want to do.

I think that in order for providing decent housing, affordability housing to all sectors of the population, we need to reprioritize the national agenda. There's a tremendous amount of money in pension funds, chasing after highrise office buildings. That amount of money can be redirected into the housing program by giving the private enterprises the incentive to do so. I think that in California and through these community agencies that a program could be available for lower interest financing for low income designed housing that would incorporate a percent that would make available to moderate income people.

I think that in addition to just providing X, Y, Z dollars to stimulate unit housing, we got to pay attention to where to put it, the

type of housing it can provide, and how is it in relationship to the whole transportation, employment, and community services.

Los Angeles has committed ourselves to build a multibillion dollar metrorail. Thanks to the help the Senator has made, and lobbying efforts have been made, there has been scarcely any kind of public discussion on how to view such a major improvement in public transportation to benefit the community in terms of providing the inner city housing that could make it very desirable places for the people who need that kind of accommodation.

Los Angeles being a gateway to pacific rim countries, the tremendous migration of population both from all parts of the country and from overseas. The city is not ready to receive them. They have been forced to go to areas that they cannot afford because they can't find suitable housing in the inner city.

I think that we have to provide in the housing bill sufficient seed money for planning and for community involvement, so that the people out there can forge a partnership with the financial institutions, public enterprises, to stimulate the more productive use of funds instead of simply just saying that we need X, Y, Z for the housing, what do those housing people want and the right type of places and for the right type of person.

Senator CRANSTON. Thank you.

Mr. TUITE. I'd like to, first of all, compliment Mr. Norris' list. I think it was comprehensive and excellent. I'd like to expand on one point. I think there's an issue of the equation that's very critical to keep in mind when you design the objectives for a housing bill. That's going to be an availability. Affordability is very critical, but it's tied to availability. I think there's certainly a trend beginning that we're seeing in southern California that is going to threaten the availability of housing at a time when between now and the turn of the century we're going to be seeing a significantly expanding economy is predicted, a number of new individuals moving into this area is predicted. It ties back to the issue of moratorium and local government processes.

There is already talk actions in San Diego. Orange County is having discussions in this area. There have been discussions out in Ventura County, actions in parts of Los Angeles County. A lot of this ties back to an issue that is not directly related to housing but is very closely connected and that's transportation. A lot of the areas that are taking actions to put on moratoriums are doing so because of issues relating to the infrastructure of transportation. They say their way of dealing with the problem of congestion and everything else is to stop growth and to stop housing. If we don't have the availability of housing, what housing is allowed to be built is going to be extremely more expensive, and therefore, far less affordable and is not going to meet the needs for the economic growth this area requires.

Senator CRANSTON. Anita.

Ms. LANDECKER. Availability is important but it seems that we've never produced housing for people at the low income. The people who need to pay rent somewhere between $300 a month, $400 a month, can't find that here. Even if we were producing as much housing as possible those rents would be around $600, $700, just by the cost of the cost of produced housing at the minimum.

I'm talking about if we were to have such a severe crisis in Los Angeles which John mentioned before, about 200,000 people in garages, the many many people on the verge of homelessness, that the definition of affordability that I'd like to pose is more geared for providing housing for low income people. That means specifically providing for households that earned 80 percent of the medium or less and that's somewhere around $15,000. Also the people paying 30 percent or so of their monthly income.

The Housing has been restricted for 40 years. That specifically addressed the issue that affordable housing, what we're calling it, should not provide a windfall profit for profit owners. That it serve a range of household sizes from single adults to families because often what happens when you have a project where 20 percent is affordable is that it's for single people and the issues of family which is not addressed at all. That it's located in areas where occupants have reasonable access to transportation and employment, that we're not building affordable housing in Lancaster and Palmdale here but that we're building it close to transportation and jobs. That it's not developed on sites where there's significant involuntary displacement. These are just steps as to what you can start to find affordable housing is.

Additionally, I'd like to just underscore what people were saying about nonprofit housing. There are some very solid reasons why nonprofit developers are now emerging as the largest group who are building housing developments towards low income people. It always scares me when people say that nonprofits are the largest producers of housing for very low income people because I know how few are out there producing. But it's because they specialize in it and they are geared for it. If they use innovative techniques to stretch public resources, they're neighborhood sensitive, they've got a commitment to long-term ownership at the long-term affordability which just doesn't exist in the private sector. Project developers often build projects and they sell them to absentee landlords. That's not going to happen. They reinvest funds in the property.

Also, the best examples where we've produced affordable housing have been in cities where these partnerships between the private sector and nonprofit developers and public entity have worked and that's in Chicago and Boston and just happened in New York. They've been using recently the new tax credit for investment in low income housing which is one step in the way it's structured. It's targeted to the low income. You can't get around it.

Senator CRANSTON. Yes. Thank you.

Ms. GONZALEZ-CORREA. We've been talking about affordable housing but my concern primarily is with rental income public housing. We have the numbers in the past administration. They are alarming. We have—the program support for rental housing has declined 60 percent from 154 for new construction from 154,000 units a year to 54,000 a year. In the early 1990's, to meet 1990, some 700,000 to 900,000 units of existing housing through section 8 or vouchers are at risk through expiration of the certificates. These numbers are really frightening. There is just no new housing production contemplated in the HUD.

Now you were mentioning that we really cannot ask for money all the time and I agree with you. We have a problem with a

budget. I think that the public housing program is a program that can be revitalized. Right now we have the housing problem. Public housing has been reducing at the rate of 3,000 units per year. Now, however, when we talk about the public housing stock, the existing stock, we are talking about stock that has been valuated at $80 billion. We would need $23 billion to modernize, fully modernize this. Now the HUD has proposed a forgiveness of the debt on public housing. It's in the drawing boards right now. Now if the housing authorities were able to access the equities, we could not only modernize those units but have the construction.

We have to look at the need. There's a tremendous need with the public housing sector. The public housing projects are becoming crime ridden and they are really the housing of last resort. We have to change that. We have to address the needs of the elderly. This effort that you are beginning today is really an extraordinary effort to really address these issues. I thank you for being able to participate in that.

Senator CRANSTON. Thank you very much.

Carmela.

Ms. LACAYO. Senator, I think that any national housing policy in the budget, restrictions that this Nation is facing has to talk about a word that we don't like to talk about. That is "targeting."

The demographic realities of this country with respect to the aging population is a reality. We don't have an aging policy as you know. We're talking about the year 2000 in terms of housing people at one end of the spectrum that are older and have very unique housing needs. At the other end of the spectrum States like California we have the growing minority population who as you know are less in service industry in terms of labor force and so on.

So in terms of policy, we're not even addressing the issue of single heads of household—the working woman. What happens to that individual in terms of the lack of affordable housing, we're not even talking ownership at this point. I would hope that any national housing policy given the budget restrictions would look very specifically at targeting certain population segments just because of the sheer dollar reality.

As we've seen in recent years under this administration cutback in 202 which is the only subsidized housing available really for seniors. It's an abhoration. Really looking the demographic realities of our country we're refusing to deal with realities.

I really strongly urge you to look at that target of those restricted dollars to revitalize 202 programs to look at the whole question of innovative housing. We are not looking at this country in terms of developing innovative housing models. How are we going to house the elderly of the future? How are we going to house that single head of household with children? How are we going to house the shadow industry that has been created in Southern California by the immigrant population that has been tremendously exploited? Who is at the mercy of the profit-making housing ownership really? What are the incentives that we are even going to give to the profit-making market?

We have a new tax credit which is a great step but there's a window on those tax credits. We have to start looking at—not only looking at that tax credit in terms of beyond 1989 because I think

that is going to generate very innovative low income housing. We must be looking at targeting. That's going to make a lot of people upset because we're talking about that average yuppy couple who can't afford a house. But I'm more concerned with that single woman and that older person and that young hispanic who can't even get into a garage to live.

So we urge you, really, to look at the whole section of targeting of resources, of innovative new models. We have not addressed the question of manufactured housing. I'm sitting next to my labor friend here. Let's talk about looking at incentives to private industry, to look at new models of how do we house people economically, efficiently, and decently.

Senator CRANSTON. We will most certainly do that.

Jim.

Mr. WOOD. There's one thing, Senator, that I think is difficult in what you said. That is the premise that we're going to do all this and we're going to do it cheaper. It's not possible.

On the defense budget side, if you were to sit before the Senate of the United States and said what I really want to do here is defend this country for half as much money, people would laugh at you. Yet you come before us and say that we are going to house more people than ever before. We are going to house a population that is impossible to house without direct cash subsidies and we're going to do it for less money.

Senator CRANSTON. I'm not saying we are going to do it for less money, I'm just saying there are limits on how much money I think we can get into.

Mr. WOOD. Well, right now the question of how to produce housing is a question of money. As you go down the scale the money goes up. We can help modern income families with secondary financing programs where you give them a small amount of money to make up their down payment. We could help low income families the way Ted is talking about in which you actually produce the housing, put them in it, use their rent as a mortgage.

But when you get the very low and homeless, which are two categories that have been added since I've been chairman of the C.R.A. We've seen two new categories. A category called very low income and then homeless. Homeless are 100 percent subsidy. There is no income and all of the costs are borne by the public side. In the very low income it's really 100 percent subsidy, because the targets are so—the rents are so low. When you start taking the 30 percent and $15,000, $15,000 is now not a very low income figure. You're talking under $10,000 for very low income. The other characteristic of very low income people, they have very large families. The two are going together. So I'm nervous when someone talks about the housing industry and doesn't want to talk about more money.

Senator CRANSTON. You've misquoted me again. I did not say not more money. There will have to be more money. But there is just limits.

Mr. WOOD. What is your idea of a limit?

Senator CRANSTON. You obviously know that Congress is not going to come up with an appropriation for $50 billion for housing no matter who becomes President of the United States. So we have to figure out what is a realistic goal in terms of money. We know

it's going to cost more. I know it's going to cost more. How much more, I don't know how much we can get. So I want to see if we can devise a program that has some alternatives than just more money. Some are going to require more money. But I'm just being realistic about what I think Congress is likely to do and what a President is liable to let us do after the next Presidential election.

Mr. WOOD. Well, Senator, then I would say that then you have to target. How many homeless are you going to help? How many low income and very low income are you going to help? How are you going to balance among these groups? How are you going to make the choice of what is an acceptable level of homelessness in America?

A mention was made earlier about how successful we've been in shifting funds to the local communities. We in Los Angeles don't feel that we've been very successful. No matter how many shelter beds we have produced there are more people that want those shelter beds. It's absolutely clear that Los Angeles' community redevelopment agency, the CDD, and the housing authority cannot house the homeless that come into this area.

Senator CRANSTON. No level of homelessness is acceptable as far as I'm concerned. We obviously should not have homeless people in America.

Mr. WOOD. If we build our budgeting on no homelessness and then work up that scale it seems we get closer to your $50 billion. And that's what I——

Senator CRANSTON. Well, part of the solution of homelessness is getting jobs for people and having decent health care for people. Then they can buy their own homes or at least start paying some of the cost. So then it doesn't have to be totally a public burden.

One idea that's been suggested is to form something that might be called a national homeowners trust fund. That's for people that have jobs but don't have enough of a down payment. As you know, if you are renting now, the rents are so high you can't save up money for a down payment. A suggestion was made to us unlike your reaction to it that we create something like a national homeowners trust fund. That would be a fund that would be used to loan money to an individual or a family as a down payment on a home to be repaid in the course of time if possible, or, if not, monthly when the home is sold. Presumably there's some inflation going on steadily even though it's slowed down so that when that home is eventually sold you could get that loan repaid. That would not be out-of-pocket expenditures for the Government. It would be in the form of loans like I stated that would be repayable. That might be a very healthy way to get quite a bit done without an outright expenditure of a lot of money.

Mr. WOOD. Senator, I think that is the kind of thing but if it's not an outright expenditure from the Government, in other words, if you can create that money without putting any money up, then you've been able to achieve something we've not been able to achieve. We have what we call quiet seconds. Those are loans that we make to an individual that do not have to be paid back. We've made an arrangement with the bank so that they do not count it against the individual's income when applying for their mortgage.

Those are very successful. But unfortunately, we had to put money up. I guess you can do it without putting money up?

Senator CRANSTON. No, we have to put money up. But it would be money that would be repaid. So it would not be a budget expenditure that was never recaptured. When we build a B-1 bomber or a missile or whatever, that money goes out and never comes back. This money would come back.

Mr. WOOD. Well, those are the kinds of things that would really work. If you do quiet seconds for the moderate income and even a larger group for the low income, you can stabilize that group. For the very low income and for the homeless, we are going to have to have outright subsidies.

Senator CRANSTON. Well, again there are two forms of subsidies. One is an outright expenditure where the Government builds public housing projects and works with the private investor in sharing costs. Another is tax incentives where you have incentives of the tax code. Those are called tax expenditures but they are not outright expenditures of public money. You lose some revenue but you get something in return for it. There have been suggestions we take a look at unfortunate changes in the tax code. I suggest that beyond that we should make some innovative changes in the tax code not relating to the mistakes we have made in the past. That's another way some wherewithal but again it's not a budget item of expending money.

Mr. WOOD. Senator, they will work.

Senator CRANSTON. Yes.

Mr. WOOD. That's the point. We know that they will work.

Senator CRANSTON. Yes.

Mr. WOOD. The question is as you said, does the Senate have the will to make those appropriations, those adjustments in the tax codes, those things, because all of us at this table have experience in producing different kinds of housing. The type of sector is good at producing the moderate income housing. Certain sections like Shapell Industries can even target for the low income. And at this table you have people dealing right now with both homelessness and very low income. Each of us can use the programs if you make them available.

Senator CRANSTON. I think to answer your question will the Senate have the will, the Senate will have the will if (A) we come up with a creative approach to these problems and (B) various forces are mobilized, mortgage bankers, others in financial fields, the construction industries, the real estate industry, labor, and groups that represent the dispossessed of the underhoused or the unhoused who agitate for and support it. We can build a coalition and make an irresistable demand upon the Senate and upon the next President to deal with this problem.

Mr. WOOD. Senator, if you include the moderate category, if you include that in the package, you obviously make it far more attractive to more people. It doesn't become then somebody else's problem. It becomes available to really middle income working families.

Senator CRANSTON. Yes. Absolutely. It's got to cover that as well as to people who are homeless.

Mr. WOOD. And then tie them together.

Senator CRANSTON. Yes.

Mr. MAHAN. It's important that affordability be defined at different tiers.

Senator CRANSTON. Yes.

Mr. MAHAN. That's a point that Jack made and a point that Anita made, there are different needs.

Senator CRANSTON. Derek.

Mr. SHEARER. I'd just like to first of all on behalf of the mortgage bankers thank the Senator for his efforts in trying to do a national housing policy. We would be in on a coalition for the homeless and any program that you might come up with.

I think also to incorporate a national housing policy should be a strong FHA and a continuation of FHA and you've already accomplished the no more user fees. I view these as a tax on the homeowner and thus forcing homeownership to receive from a larger group of people. So I think your efforts along these lines have been dramatic. I think from the State of California we are well represented in Washington and very appreciative.

Senator CRANSTON. Thank you very much.

I'd like to get back to one thing, Ted, you said with regard to that 2 percent U.A.W. loan. What were the forces behind that change? Do you know in 1971 the—incidentally the hearing, we had a hearing yesterday in Washington, the difference from this it was a formal hearing, somebody noted that the prime rate in Japan now is 2 percent.

Mr. WATKINS. The attack on the Teamsters Union where they were trying to close some gaps in the trust funds, had those trust funds came up before the Congress to pay some kind of regulations, et cetera, on the trust funds of the Teamsters. What happened in that battle is that all of the union's trust funds across the board got thrown into that same law. And eliminated what was known as social services and other kinds of services the unions could do with monies that they had.

Senator CRANSTON. I see, yes.

Mr. SHINE. Well, I think part of the problem is, and Ted hit it right on the head, is, first of all, with respect to these requirements, you know that today if you lend money and you don't charge more than a certain amount of interest, the internal revenue service imputes.

Senator CRANSTON. Yes.

Mr. SHINE. So it just kills any possibility for private funds which were subject of ERISA legislation permitting these favored nation status loans to the group even though the group may be entitled because Federal law prohibits it for entirely different reasons.

But the point which Ted made which is true, if you are talking about rental property and you talk about affordable housing, unfortunately, a lot of it's rental just because of the monthly payments, which is what it's all about is monthly payments, then you're talking interest. You look at whether the Government owns it or a community development agency owns it or a private company owns it, their largest cost is interest. I think that one of the most important objectives of a bill right now should be to address the ways in which you can create for working with the mortgage banking and other communities involved new kinds of debt instruments.

Senator CRANSTON. How do we do that in ways to get the interest rates down without diminishing the incentive to be in this field of the private sector?

Mr. SHINE. The key is incentive, right.

Now, as Ira said before, we're now in the process of seeing the demise of the local tax-free bonds that are issued by local agencies that allowed us to sell our product at a lower monthly payment because it's a lower interest rate. I think that—I don't remember exactly, but I think every, every percent of interest rate that it goes down is somewhere between $25 and $50 a month in rent. If the rent is reduced and I think that in your creative thinking—we are not going to get $50 or $100 billion from the Government. They don't have it. They don't have the dollars. It's just that simple. We are not going to take it and cut $50 billion from defense and put it into housing. Politically there are not enough votes to do that.

But there are other ways as you've suggested. One of the ways is through tax incentives or other kinds of incentives that allow tax breaks either because you have exempt kinds of instruments that will induce investors to invest their money at a lower rate of interest or you have them tied to something where the real return of the investors on an after-tax basis still creates to the investor an incentive to loan his money, whether it's our money or foreign people coming in and loaning the money. But if we don't get the cost of interest in debt carry reduced on projects that are designed to accommodate the lower economic level, if that interest rate became the real rate of today, the merry-go-round's going to come back and you're going to find yourself where you started. I think that's your most——

Senator CRANSTON. Do you have thoughts that you could refine down on a piece of paper as to how we could go about doing that with lower rates?

Mr. SHINE. Create all new instruments.

Senator CRANSTON. Yes.

Mr. SHINE. I think that it's certainly realistic, to answer that question, yes, in consultation with other people in our industry and related industries.

Senator CRANSTON. OK. You're appointed subcommittee chair.

Mr. SHINE. We'll be happy to submit some specific suggestions.

Senator CRANSTON. Thank you. Address them to Don Campbell, please.

Mr. SINGER. I'd like to piggyback on a couple thoughts which deal with the disintendence towards writing down mortgage interest rates, which are very real not only for unions but for individual sellers and investors, I note to the Senator, are very significant.

But I have two thoughts. One is a barrage thought as I listened around the room I think there are very innovative ideas. But I am concerned that we are still looking too narrowly at old solutions. I do think one of the benefits of the crisis, if you will, in housing areas, has been the evolution of local responses, State responses. But I think when we look at the Federal level to a large degree we are still looking too much at old solutions. But I'd like to suggest that we can do much more. For example, not only new debt instruments, why isn't it new agencies and institutions?

Clearly from the standpoint of a home ownership market, secondary market along with FHA and VA have been extremely successful. If you look at the Fannie Mae and Freddie Mac record, the annual savings of homeowners is on the order of several billion. Those programs have worked effectively since the great depression, they've worked effectively without being a tax burden, at least not a directly budgetary tax burden. Why not take a look at either expanding their roles further? If they are multifamily, why not expand their role into multifamily housing? That would be an incremental change perhaps but every incremental change is essential.

Second, it seems to me that if we are looking at the role of Government from the expenditure possibility, I think we do have to be realistic. As much as we would like to see represented housing industry a reversal of the expenditure between the types of housing that's not politically viable.

On the other hand, there are pay-as-you-go programs along with carving and local initiatives that are used in other sectors that make lots of sense.

Lease option programs in terms of rental housing are simply not being utilized to any degree by Government. This option program is a move in this direction. The lease programs of all sorts seem to make sense. Again could be tied into new institutions that are financing rental housing and building the rental housing component into a home ownership component which from our standpoint should be a chief goal of any housing legislation.

Some of the other financing instruments that we use as much as we will always support mortgage revenue bonds, the targeting those mortgage revenue bonds is something that is used between the investor and the end user.

Mortgage credit certificates, pilot programs that are being tried in many States are being hamstrung by some of the restrictions that are put on it. But I think that everyone who looks at mortgage credit certificates will recognize that these programs provide more of a buy now particularly in today's market at far less treasury costs.

Those are the types of programs that should be looked at. Going beyond, if you will, can be done on a broader-based constituency situation and can't force the tie-in that I think is essential between the public and private sector, between local community groups and the Federal role. But I think we would be mistaken both policywise, and from an efficiency standpoint if you look at a purely political Federal solution. I think it's incumbent on all of us in this room, frankly, to come up with a specific suggestion. We certainly intend to give you some very specific suggestions between now and October.

Senator CRANSTON. I'd like to ask you if you could make specific suggestions on one front that you alluded to. That's what more could Fannie Mae and Freddie Mac, et cetera, get involved in that would deal with the lower cost of housing needs? David Maxwell is the key person Fannie Mae is involved with in this operation with us. If you could make suggestions, we can give to him for his analysis. Could you do that specifically?

Mr. SINGER. I think specifically there are areas. I think, for example, there are political pressures on Fannie and Freddie, not only in the homeownership sector that specifically limit their involvement in multifamily housing. Yet although those changes may be incremental, they do free other dollars up for direct use by community groups.

Senator CRANSTON. Great.

Mr. LEWIS. Senator, Joel suggested don't look back for solutions and yet I think certain methods were working like the section 235 subsidy program I thought worked pretty well and it gave a lot of people housing and a lower interest rate and a lower down payment. The only reason I knew that was taken out was originated by Democrats, and the Republicans canned the program, said it's no good. I had a friend that was hired to go back to Washington to prove it was no good. They didn't say please research whether it's good or not. They just said, "Please prove it's no good." I thought it worked.

I wanted to talk briefly on a couple of things I keep hearing, and I'm not sure who said it. Someone said manufactured housing is a solution that will bring down housing costs. I've been a home builder for 32 years. I constantly look into manufactured housing. I don't care if I drive the nails or someone in the factory can do it better. But I haven't seen where it saves money. We build cheaper, and I think my brothers here who are home builders agree the old-fashioned-do-it-on-the-job-site way is more efficient.

In the same wave we've heard a lot of talk about nonprofits and they're implicit in that some idea that a per profit builder makes millions gets fat. I think it's just that per profit builders often are more efficient and the nonprofits are much less efficient. Again I've worked with some groups and tried to help and I've gotten quite upset I guess, but—one little analogy. Yesterday the Rabbi from our synagogue came for advice on how to build a new temple. We have a committee and they're going to work and do a lot of work in sales and profits at a cost of a million bucks for them, they just have somebody build them for them.

But the usual home builder doesn't make a vast profit. Some years he makes a little more. Last year was a pretty good year. On the other hand, 1980, 1981, 1982 were lost years. But there's something when you are building for profit where you have an incentive to cut costs and save and be efficient and I don't see that in the nonprofits however well being they are.

Mr. WATKINS. I just want to say that I think that the speaker has the term mixed up. In nonprofit it doesn't mean you don't make money. It means that when you make the money you have to reinvest it in the community. We took the $2 million that I talked about and changed it. Today that $2 million worth of property is now valued of $60 million worth of property. I don't know of a profit maker that has done any better than that.

Mr. HARRISON. There's a tremendous housing need in this country. We cannot do without profit-making housing developers. They're a huge part of that answer to that problem. Nonprofit housing developers have their role to play. I don't think it's one versus the other. It's finding a proper ditch for each.

Mr. HARSHFIELD. Senator, I represent the Retirement Housing Foundation, as you know. It is a nonprofit corporation. We can prove it. At the same time, we have learned in recent years that even as a nonprofit we must also use the techniques that were mentioned, capabilities of every proprietary sector. So we have gone into syndication. We will be doing more. Set up the national clubs to do it more aggressively. It's a combination of a number of nonprofits nationally.

You've heard a lot of speeches here today. I think that we agree that most of them are headed in the right direction with total new thrust of a national housing act. It must somehow recognize, as you've already said, the limitation of Federal funds. But including Federal funds somehow can be maximized and tied in perhaps with certain restrictions on the one hand or incentives on the other to create also the involvement of State, local, county jurisdictions. Also pension funds.

Incidently, about pension funds, there's an odd thing about pension funds. Pension funds belong to individuals. Most of them have homes or will have homes. And most of them ultimately retire. One of our goals is to try to interest not only pension funds but corporations for those people working to develop a participation on the Government of housing for present and future use which can be somehow shared back with the pensioners today and tomorrow at yesterday's cost. These devices potentially exist and we should pursue them.

Senator CRANSTON. Yes.

Anita.

Ms. LANDECKER. I'd like to follow up on one comment about the secondary mortgage market. I think that that's real crucial. The two aspects of this. One, where I work local initiative support corporation has formed it because it's like a social investment bank. It's formed its own secondary mortgage market to begin buying—has raised the money from insurance companies to buy back its own loans. But another method which could be used is the tremendous amount of government money. If we can figure out a way to buy back those loans and recycle that money through cities. I think it's a tremendous resource.

The second idea I just want to throw out is that a lot of these housing problems in programs in the past have been designed more toward older east coast cities. A lot of rehabs have been focused. In California rehab's important but I think that it's crucial that we have a program that addresses new construction and issues in areas like this.

Senator CRANSTON. Bill.

Mr. HARRISON. Senator, in attempting to formulate national housing policy, I would urge you to have some caution in trying to develop a policy that attempts to be all things to all people to all groups. Within our housing industry there are often conflicting objectives and conflicting priorities even within our own industry. This together with the limited resources available could render a national housing policy with a lot of cream puff and no substance.

In that regard I think there are two essential issues that any policy, national policy must address. No. 1, the preservation and the protection of the resources that we have now which are often

underutilized. There are subsidy programs that are not effectively used. There are resources particularly in the inner city which no one has an economic incentive to try and preserve. There is no incentive for existing owners to want to invest more funds to preserve those resources. We cannot focus on new housing programs for the middle class or talk about new financing techniques if we don't effectively use the resources we have now. The Federal Government has a tremendous investment with these resources. It's before we go running off amuck, trying to devise new systems and new programs we need to understand what we have now to assure those resources are well used and serve the population as Congress intended them to serve.

The second major issue is affordability. We can't be talking about new techniques without divising new single family programs for middle class families that we're not dealing with the people who have the greatest need. It's not unusual in a housing complex to have families paying 70, 80 and 90 percent of their incomes towards rent. These people do not have money to buy food and the basic essential services. We can't be running off amuck on a lot of other issues in the national housing policy if we don't focus on those two issues. That's where the Federal Government has a prime responsibility.

Senator CRANSTON. Thank you very much.

Mr. TUITE. Senator, again I'd like to add my thanks to you for bringing this group together. Quite obviously there are a lot of solutions here and there's also a buildup of a lot of frustration over the last few years. I would ask you to continue to do this kind of thing. This is important. In some ways having spent a lot of years in the east and in Washington, I also recognize it particularly important in California because we tend not only to be 3 hours' difference but also further away and hard to get the input in the sense that we have some voice and therefore your chairmanship there I think is very important to us. I appreciate that.

There are a number of things that I believe that have to go into or would be important to go into this national policy. I think it may be time for us to go back to national goals again to begin to put it on the line as to what we are really going to produce. To look at the size of the need and how we are going to address the need. Because some of the casual kind of well, we'll keep the defense budget just where it is and we'll have to fit housing in and around there partially I think comes from the fact that we've been hiding from ourselves over the last few years the size of the need and the dimensions of the problems that we face domestically. I think if we face them out clearly and set some hard line goals for ourselves, not only nationally but regionally also because I think the goals it is obvious here today in the discussion are multiple. There are various kinds of needs and I think we need to address them in some way and prioritize needs nationally as well as regionally.

I think that we have to begin—I would hope that this bill would begin to challenge the States, it would challenge the local governments to find ways that they might add to this that the Federal Government cannot. I think that's been part of our problem in the past. As you recognized and said on a number of occasions, that the

Federal Government can't carry the whole burden, not of the money nor of the innovation and the flexability in the country that is needed. I think that the national housing bill, perhaps has to go back and begin to echo those challenges that were characteristic of a few years ago.

One of the other issues that I think, and the bill mentioned it, I think it terribly important to look not only to the fact of what we need to do to build more housing but also to face some of the critical problems that we are going to be dealing with over the next few years as far as the loss of those units that are now under contract to the Federal Government. We're looking at figures of section 8 just in the city of Los Angeles of perhaps some 10,000 units of section 8 housing that are going to be going out of contract, contract will be ending, and those units will have a tendency to go float into the market and will be lost to the low income strain.

In Southern California the estimates are that that may be 30,000 units, but no one has the figures. I've been asking a number of people over the last couple of weeks. HUD—people have told me they've asked HUD to help get the figures. Nobody seems to even have put the figures together of what could be a critical kind of thing that we started something 20 years ago and we're just going to let it drain away and forget it until we're up to the last day.

There's another 10,000 units that we look over the next couple of years to be losing to be going on with that contract. I think that this bill is going to have to address those issues, and perhaps that's one of the things we need to address early rather than over the next 3 or 4 years.

Senator CRANSTON. Quite possibly Congress will address that particular problem separately from the effort to come up with a new program in policy. I'd like to focus for a moment on this particular problem. Perhaps several of you alluded to it in the past during this morning. One aspect of what we have to do is preserve housing we've got and improve it, rehabilitate it rather than what is presumably less expensive in many respects in building brand new housing.

Let me cite specific questions on this subject. What do you recommend that the Congress consider in addressing the potential loss of our low and moderate income housing stops, specifically on this point of the prepayment? How should Congress balance—and this is not easy to do—how should we balance the conflicting objectives, preventing tenant displacement, preserving low rent units, and honoring contractual commitments to private developers? It's not easy to do those three things. Irrespective of what we do on prepayment, to what extent do the housing needs of low income people require new production programs and how much can be met by preserving and rehabilitating what we've got?

Don, have you heard any specific figures on how many units are probably facing loss, due to prepayment?

Mr. CAMPBELL. Well, G.A.O. indicates that at least 2 million units over the next decade are vulnerable to loss. Not just the ones through the prepayments but also the expiring contracts under section 8 vouchers and all the rest of it.

Senator CRANSTON. If you took the normal rule of thumb that whatever happens nationally, 10 to 15 percent happens in Califor-

nia, then 200,000 to 300,000 units in California are probably in jeopardy. What do you think is apt to happen in terms of timetable in dealing with this specific problem separately from the other legislation?

Mr. CAMPBELL. Well, there are two things. Right now the most immediate problem is with the farmers home mortgages that are due to be prepaid virtually any moment, as soon as the moratorium expires. We have passed—as a matter of fact, the moratorium expired at the end of June. So we're now in the red line area here. The Senate passed last Friday and the House passed a couple days ago an extension of that moratorium through the end of this calendar year. That gives us a little bit more time. But a moratorium on that is not a long-term solution. It is only a temporary one.

The housing bill, the Senate housing bill did not have any specific solution in this because when we're dealing with it we wanted to get the housing bill out to the Senate floor very quickly. It turned out to be a very good strategy. But when we were doing that, the proposals weren't right for including in the bill. As we left we were silent on that issue. The House does have a number of proposals on there. So the issue will be in conference. I think that's the first opportunity we'll have to take a look at it.

Senator CRANSTON. When do you expect that conference to commence?

Mr. CAMPBELL. At the staff level it will start next week.

Senator CRANSTON. Rodney.

Mr. FERNANDEZ. Yes. Now, a specific suggestion that the National Housing Coalition has with regard to retainers to build in the right of first refusal for tender organizations or for nonprofit. I think that's a way that you can maintain in the long term affordability.

I just talked to someone in view of the farmers home in this State and she reported to me that the head of the State farmers home program told her that last year, 1986, there were more units taken off the row than they were able to produce. The figure was 1,500. We'd also like to encourage to extend the moratorium on farmers home program beyond January, 1988.

Senator CRANSTON. Don, is that right of first refusal a conferential item?

Mr. CAMPBELL. Yes, that's in the House bill. One of the unique problems is where are the funds going to come from. You are going to have the right of first refusal and not be able to do it.

Mr. FERNANDEZ. My colleague across the table here will make some very——

Mr. CAMPBELL. The proposal is if the owner does want to sell, you would have to give right of first refusal to a nonprofit or a local government.

Mr. SHINE. But aren't you better off negotiating a deal that they get paid off. The same owner is still going to own that unit. He's not going to sell. The property is now matured. It means now's the time that it's really going to be worthwhile as a conventional project. It would seem to me that a lot of these people that are in this program have more than one building. They have a basketful. You might want to go to negotiate a basketful of deals with all the larger holders and preserve these units for the program today,

even if rates get back to financial incentive again, it may be a tad under the current market to convince them that it's better to stay than to go and face the conventional market with conventional rate financing that they're going to have to go out and obtain today.

Mr. HARSHFIELD. One of the defensive positions that I heard is with State or local jurisdictions, that they have to get certain permits for that change of use. To be able to restrict the use of all income property is one way to keep it from being turned over very rapidly or profitably for a private developer.

Senator CRANSTON. Derek.

Mr. SHEARER. Yes. I was thinking someone mentioned before, the idea, some kind of funds that it provide as long as you get the money back. It seems to me this is one area where you can find the tenant right of first refusal with some type of loan fund refusal. You've got a group of people and then you've got local groups and mechanisms to put it together.

We've done this very successfully in Santa Monica where the tenants have a right of first refusal in purchasing units and condominium conversions. We've had a number of tenant purchasers, some of them have been low income using our nonprofit committee corporation. It certainly seems to me if we were going to create a fund, the priority would be to go to these tenants and those right of first refusal. I think that would be part of any emergency legislation.

Senator CRANSTON. Was your point, Jack, about right of first refusal that the entity that made the original investment with Government help doesn't want to sell. They just want to hold it and raise the rent?

Mr. SHINE. Twenty years ago or whatever it is, I built over a period of years 10 buildings, let's say, average 50 or 20, whatever units a building. Now I have a chance to refinance myself out and relieve myself of the obligation for subsidy or low income and all that.

Senator CRANSTON. And raise the rent?

Mr. SHINE. To the market level, and pay for the market rates of interest that I have to pay. Hopefully be somewhat better off given inflation and everything.

Senator CRANSTON. What can we properly and appropriately do in regard to that circumstance?

Mr. SHINE. Again I go back to old solutions, maybe, but we have used debt instruments, we have used tax-free bonds, we have used lower rate interest loans. There's got to be a quid pro quo if the owner of the property is going to continue to get some kind of return of whatever they have on the property, then the relationship between lowering his cost of doing business and lowering what he charges for his product, which in this case is rent. If you lower his cost of interest which is probably the biggest expense he has, then there's a corresponding number that you can easily ascertain what the value of the marketplace is or how much a month you reduce the rent per apartment compared to how many basis points you reduce his annual interest in holding cost. it's a numbers game. It's very simple.

Mr. RAUBESON. Nobody is against any investor getting a fair return on his investment. We may argue over what that fair return is. But the fact is that these projects were built as low income housing with considerable public investment to get that. There is other public input. There are waivers given. We want a low income project for elderly people, most of whom don't drive cars; therefore, the parking restrictions it goes with are waived by local authorities. I don't know how much that kind of thing can be looked at from the national level, but where there have been governmental loans made with assurances that the property was for low income and there were concessions made, developing concessions made, it seems that that can be a factor in the sale as well.

Mr. SHINE. But were they made for an ad infinitum period as long as the universe exists or were they made under a contract? If you do this for us and we do this for you for so long——

Mr. RAUBESON. Well, the fact—the fact—the fact remains——

Mr. SHINE. When the contract expires should it then be unilaterally extended on one side without the other side?

Mr. RAUBESON. Well, the example I've used where you have elderly low income tenants who don't use cars much and therefore you get a waiver of parking restrictions, it made sense to me that then you don't go marketing that to a different group of people who have cars. There are plenty of other examples of those kind of trade-offs made to get that low income housing in play.

Mr. SHINE. Andy, it's a whole 25-hour discussion over the control and land use in the long and short term. And there's not some—there's some merit to what he says but——

Mr. RAUBESON. I'm just asking as a general principal, consideration be given to that kind of factor in sales.

PERSON IN AUDIENCE. Senator Cranston, you can build 20,000 units downtown. Santa Monica put us out on the street. The police busted into our home over 8 times. They tried to kill my son. They clubbed us and clubbed us and picked up my wife. She only has one lung. This is in Santa Monica, California. I've been there since 1949. I own my home free and clear. I make first. I make seconds. I make thirds. And I make fourths.

The city of Santa Monica did this to us. They put us on the street. The Federal—unintelligible—take my money. The coastal gave them money. I'll tell you stories you won't believe. This man is a fake. You can build 20,000 units down here. You got—you got places down here that are vacant, big buildings. But the CLA has to go after. They are doing a job now, but they have to—the justice is this way. See, it has to be even up and you can do it. This is going to be the No. 1 city in the world. There's no question about it. Now you got one plan with four buildings——

Senator CRANSTON. We are trying to serve the shorter problems.

PERSON IN AUDIENCE. OK. You have no right. I'm going to see every one of you.

Senator CRANSTON. Ira.

Mr. NORRIS. If you don't mind, I'd like to throw a couple of numbers out. It's staggering. The Southern California Association of Government has indicated that by the year 2010 there will be 5.7 million additional people in Los Angeles, Orange, Riverside and San Bernardino Counties.

Senator CRANSTON. How many?

Mr. NORRIS. Half—5.7 more million, meaning 5.7 million more, half of which will be our own children. Let's put that in perspective. That means we need to build just to house that group a 109,000 units a year average in these four counties every year between now and 2010. In the last 10 years with the ups and downs of the cycles we've built an average of 76,000 units. So just to house the new people that will be here, Senator, we are going to have to increase by 50 percent average per year the production that we have been doing in the last 10 years. That in itself appears to be impossible.

Senator CRANSTON. Yes.

Grace.

Dr. PAYNE. I just wanted to add these few words: with all the things that you've done, and we do apperciate all that you have done and doing, we still need a force by you that will enable the public to understand that housing is good for everybody, to eliminate there would be less crime if we have better housing, there would be better schools if we had better housing, and a healthier Nation for us all. We need to just educate people to understand that. It helped the moderate income person to understand and support housing at its best.

Somehow or other, I get that feeling that when we talk about less tuition for housing, people think we're only talking about poor people. Since poor people are not the ones that everybody seems to respect, we need to develop some sort of understanding that poor people are people. They just happen to be poor not by choice. So we have to think in terms of how we can educate everybody to have respect for each and every one of us, poor, middle class, or whatever, homeless or whatever we happen to be, but make some national motivation throughout the whole country. People able to respect each other and admire the housing and develop it.

Mr. LEWIS. Could I add to that, Senator?

Senator CRANSTON. Yes.

Mr. LEWIS. We have been talking a great deal about inner city problems and I know there have been problems but most of the housing was being built out in the suburbs not in the inner cities. We find a great reluctance on the part of many cities to wanting affordable housing in an awful lot of cities say "we don't want poor people. We don't want minorities." They throw so many stumbling blocks and put hurdles in the way. I think perhaps the Federal Government could provide more leadership. Then I don't have a specific question, but I just know I could rattle off the cities where we built in counties east of here, and if I said I want to build a low income project they'll stop it.

Senator CRANSTON. How do you think we deal with that problem because obviously that is a severe difficult problem?

Mr. LEWIS. Possibly with either incentives to cities to encourage growth or penalties on federal aid to cities that have exclusionary zoning.

Mr. RAUBESON. Something specifically that might even be with the upcoming conference——

Senator CRANSTON. I beg your pardon?

Mr. RAUBESON. The upcoming conference on H.R. 4, the House version has the targeting for low and moderate income increase from 51 percent to 75 percent. I frankly believe it should be 100 percent but it's 75. I think that's a step. We are talking about targeting, getting funds, Federal funds into where they are most needed. I don't see any reason that the Senate should not go along with that increase to 75 percent of targeting of funds.

Senator CRANSTON. Right now in the Los Angeles community there seems to be a sentiment developing against growth, at least slowing down growth. I don't know what kind of growth exactly is being talked about. But if it's big developments that is apparently a factor in some elections that were recently run and lost here.

When I was in the building, I went through the process of trying to get so-called 221D3's, which was moderate, low income housing in certain communities. There was a resistence in those committees from people who thought that their property values were going to have to be diminished. They didn't like the concepts they had who might occupy those dwellings.

How do we deal with those problems as we try to come to grips?

Mr. DOI. Maybe the elimination of article 35.

Senator CRANSTON. Which is that?

Mr. DOI. The one that no community has to take a vote on whether low income housing projects should be built.

Mr. SHINE. It's zoning by going outside the system of elected government, the people be at initiative. In the State of California we have a housing element that nobody pays any attention to, by the way. The local government's don't take care of it at all. But Dick's point was, the partial answer to what you're saying, they don't want growth because they don't want to wait at the corner for the signal to change three times.

Senator CRANSTON. Yes.

Mr. SHINE. They don't want to have to be caught on the freeway. Meanwhile we have this Federal, State, local grant thing that we're trying to get money for our freeways. Everything interrelates.

With one committee, I don't know if you can solve all these problems. But transportation and infrastructure and the preception of people who live in the areas, is the key ingredient as to whether they are going to permit growth even for modrate and low income housing provided that they don't see it inconveniencing them. If it doesn't make any difference to them then everything's wonderful. But the minute there's an extra hour in school or an extra 5 minutes on the freeway then they want "not in my backyard. Thank you very much." That's how you get to it.

Senator CRANSTON. Derek.

Mr. SHEARER. Dick earlier made a very good point about transportation and housing. As far as I know, and I've had students do a lot of studies on the new metrorail, there's no serious consideration of housing and not a tie-in between transportation money from the Federal Government and housing planning. I think that's one area that you could explore as to whether it is possible to put in some requirements on States that receive money for highways or mass transit that require some kind of serious planning for housing be-

cause as most people are well aware of that's one area which Europe does much, much better about planning housing projects.

It could even go to requiring, as Ralph suggested, that cities and States that have benefits of Federal transportation money are required to have certain zoning standards or allowed certain multifamily projects at a certain level. One of the problems people know with the Mount Laurel decision in New Jersey is that all of the State mandate that you allow things, they don't happen. Yet there's no incentive. You can have a lot of positive incentives but I think one negative incentive would be if you don't get transportation money unless you do some of this. That's sort of a tough step to take but I think that's one way to go. As far as I know there's been very few Federally financed transportation projects that have produced any housing. Instead what they've done like century freeway, they've torn up the housing.

Mr. MAHAN. But I think it's important to recognize, though, that the connection is very important but the solution, we're not going to build ourself out of the problem. The plan on building a freeway is 20 years. Metrorail may provide some relief but it's several, several, many years away. There's got to be some solutions that are short term. Whether that's the Olympic solution that L.A. used during the Olympics or what the city of Pleasanton is using right now in that situation.

Senator CRANSTON. What do they do?

Mr. MAHAN. Industry went to local government and said we have a growing problem of congestion and if we don't deal with it, it's going to impact on the economic growth of our area. So they devised a system that is now in its second year, I believe, that basically requires industry to impose upon industry to come up with their own plans of reducing I think the units they use are traffic mounds. But whether that's carpooling, whether it's flex time or some other creative mechanism, they have to meet certain objectives. If they don't meet them then the local government can come in and take action that will require, in other words, impose a carpooling or impose a flex time or they will be subject to penalties. From all indications it's working well.

The down side to it, though, is it's limited to Pleasanton. It's not all of Contra Costa County so it only hits that pocket.

Mr. RAUBESON. Senator, I——

Mr. MAHAN. It's not going to happen unless you tie some type of incentive to require roads to Federal funding to try to encourage local government to do that.

Mr. RAUBESON. I certainly don't mean to, nor am I in a position to speak for the slow growth aspects. I don't think anybody in this room has much from that point of view. But let's not give the devil more than it's due and learn the wrong lessons politically. I say take them at their word. What they are saying is that we are against unplanned development, quote, bad developments. They have concentrated most of their talk on office towers.

I don't think that we have to immediately create them as enemies of housing. I think we can assume to a certain extent that they can be for housing. I don't want the political lesson to be learned that you have to be very, very cautious on all development. I don't think that's the message that we should learn from that.

There is need for public education in that area. I think we do have to create a public consensus around housing. Again I hate to get back too much to specifics, but at the conference committee there will be another item in community development. That is to reinstate those citizen participation norms that were part of the package prior to 1981. I think that's important. I think that gives neighborhood organizations and groups, homeowners associations, a sense that they have some say in how those funds are targeted. It is a mechanism for local government using those Federal funds. It forces them to get out and talk to groups. I think that it can get support on areas where we don't have it.

Again at the conference I would hope that you could support that as well.

Senator CRANSTON. Anita.

Ms. LANDECKER. Yes. I just think in a lot of areas people are opposed to what they think of as low income housing because what they think of is multihundred—I mean hundreds of units in one time. There are many examples especially now both in Santa Monica and in Los Angeles—and I'll use nonprofit groups as an example—building very neighborhood centers of housing. That's in fill lots of either rehab or new construction of 20 units or less. In Santa Monica they've got 300 units around our city that are all—I'd say none are more than 20 units all over Los Angeles with lots of nonprofits. They are building 20 units and 30 units of housing. That housing fits into the neighborhood. People don't know it's affordable. In fact, in one neighborhood they think that it's increased the property values. They've used the best architects. It's nice housing. People don't know who lives there.

If we build in the incentives to do that kind of housing, nonprofits are held accountable in their community and therefore feel sensitive to not doing huge developments but doing developments that fit into the neighborhood.

Senator CRANSTON. Thank you very much.

We now have about 40 minutes left before we are supposed to stop. We agreed we would seek to end at 12 noon.

What I'd like to do now, if I may, is go around the room and I'll start with Ralph and ask each of you if for not more than 1 minute you would say what, what's the most important single thing that we can seek to accomplish in this bill. Any suggestions you have, if anybody wants to quickly comment in not more than 1 minute, yes or no or some modification, fine, so we can give everybody a chance to indicate what you think is the most important thing we should seek to accomplish in this major legislation.

Ralph, you start.

Mr. LEWIS. It's hard to comply, Senator, and I'll say what I think you should do or whether that's the key point. One, as a home builder I've been in programs for 30-some years. I deplore any attempt to cut them down. I would restore FHA to full volume. I would raise their cost of loan limits here in L.A.

Another point I think is important that hasn't been touched on. There are certain Federal programs that inadvertently work against producing housing like in—it's very hard to find land for housing, land that's usable and livable. The Federal Wetlands Programs is a great deterrent and it ought to be corrected in a way

that the people are considered more important, see, than the burden.

We need some consistency on Federal housing policies. If business is good, housing funding is cut down and programs removed and we're in recession. Congress says, "gee, we better do something about housing." But meanwhile our workman have left the field and have to be retrained. I think we need some consistent steady application of the housing policy.

Thank you.

Senator CRANSTON. Thank you.

Mr. DOI. What I wanted to bring out that hasn't been mentioned today yet is reexamination of the community reinvestment act. I think perhaps the reexamination might add a little more key and provide more incentive to the banking industry to be able to fund more low income housing projects.

I definitely want to reemphasize the use of local community organizations. I think that identifying a special role for nonprofit organizations is absolutely critical because of this motivation that we have. Not only that, but I do believe that in the long run the use of local organizations, community organizations, is more cost efficient and will add to future development of low income housing without necessarily utilizing tremendous subsidies.

Senator CRANSTON. Thank you.

Mr. MAHAN. Senator, I don't know that I can reduce it to a single item. I'll try to reduce it to two very conclusively.

I think the two issues are affordability at all levels and that is a factor both of our discussions have indicated from the inner cities and the suburbs. The second item is availability. Availability is going to contribute ultimately to affordability. If the supply is not there, affordability is going to worsen and we are going to have more homeless people on the streets. As the trends show those homeless people are going to be families and are not going to be single individuals. As it relates to availability I go back to the issue of infrastructure, I go back to the issue of transportation in its connections to the problem, and some key issues that Mr. Norris raised today.

Senator CRANSTON. Thank you.

You are all being remarkably concise. Keep it up.

Mr. TUITE. It is a tough challenge, Senator. I think I'll add one other issue rather than try to sum up some of the other points that I made before.

The Federal Government operates all their programs through agencies. One of the problems that you face, and I know this from personal experience, 10, 15 years with HUD, you have as a vehicle and an agency and I believe in carrying out your programs, a partially dismantled, heavily demoralized agency that has lost a tremendous amount of its talent. I would say that you are going to face a few years of rebuilding that agency. And that's the vehicle that you are going to depend upon for carrying these programs out.

I think that it's going to take a major effort to do. Agencies before have gone through the same kind of thing at the Federal level. You yourself I'm sure are aware that it takes a considerable amount of effort and time and motivation in order to put those agencies back together. I think you have a broken vehicle right

now that's going to take very serious work on the part of the Government to reestablish.

Senator CRANSTON. Yes. That's a very tough aspect of the problem.

Anita.

Ms. LANDECKER. Thank you very much for holding this.

The most interest I have is in creating permanent housing, coastal shelters, with 40-year trustees, targeted to very low income people. One mechanism used would be partnerships that include corporate equity, banks, nonprofits and cities that have been successful.

Senator CRANSTON. Thank you.

Mr. RAUBESON. Well, Senator, the most important thing, one thing I suppose you could do is do something about the buyout. I don't think we could do enough new. We are losing out the other end.

But I'll bring up something else in my 1 minute that hasn't come up yet and that is the $355 million appropriation for the urgent relief for the homeless bill that the House-Senate conference to agree on the $355 million. It's not the $500 million it deserves. It's not the $442 million authorized. It's what we are going to get. We need it fast if it's going to be out on the street for this winter, that has to happen right away.

Senator CRANSTON. Yes, well, that's been acted on by Congress. Where is that now, Don?

Mr. CAMPBELL. The appropriation is now passed the House and now it's going to the Senate.

Mr. RAUBESON. Right, Senate passed $355 million.

Senator CRANSTON. Right.

Mr. HARRISON. More than any other issue, I feel that the kinds of problems that we face in housing will change over time. The kinds of needs we have to address are going to change. I don't think we can formulate any one solution.

I feel that the most important thing you could do, Senator, is what you are doing. To articulate a national housing policy no matter how limited, how restricted, to reaffirm a sense of public purpose, so that in the future we have a form in order to be able to deal with all of these kinds of issues.

I'd like to commend you for having the courage to undertake this at a time where there's been no interest in doing so.

Senator CRANSTON. Thank you very much. I do want to help to get it done.

Fred.

Mr. CHAN. Again I don't think that it's one thing that I can summarize as to what we need to do for these housing problems. I'd like to commend the Senator for doing what he is doing.

I think the No. 1 thing to do for you and other people to provide for private and public discussion so that we can raise the level of awareness in all sectors of society that hacking our urban problem should be the number one priority in this country.

Second, we need to look at affording a partnership between the Government and State and local governments, with private enterprises, with nonprofit groups so that all sectors can direct an effort into housing where is type and form that we need to rise and

stretching the dollar to generate as much housing with the least amount of Government spending. I think possibly directing financial resources, for instance, in the pension fund areas in the housing industry.

I think lastly, is really that we got to address housing is not an issue that can be solved in the context of housing alone. It is a community from and I think we have to look at the type of community we want to build. We have to address housing in relation to transportation, relating to the employment, relating to community services to building a better community and not just house people.

Senator CRANSTON. Thank you.

Clark.

Mr. HARSHFIELD. My plea would be for a constitution of some magnitude of a title 202 program or something like it. The elderly in this country still need low income housing. Approximately 15 to 20 percent of all elderly are below the poverty level sustained by S.S.I. or less. Many hundreds of thousands of persons are going to need a stronger housing program than coming here.

The Angelist Plaza down the street over here, we haven't opened the rental boards on that since 1984. We still have 900 names on the waiting list. This is typical of most of the 202 projects particularly in urban centers.

So that's my nickel's worth.

Senator CRANSTON. Thank you.

Carmela.

Ms. LACAYO. Senator, I'll just ditto affordability, availability, targeting, looking at trust funds I think are very important.

I also strongly believe that people don't believe that nonprofits are committed to private-public partnerships. That we should look at incentives for the profit-making developer in joining hands with the nonprofit and community group in terms of bringing about more impacts in the community. There has to be an incentive there to leverage those partnerships. We have to go back and look at the tax code. I think it's very important that the new tax overhaul refocuses on the whole area of development, which is very important.

Finally, I think a very important thing, Senator, is that for those of us who are advocates we can pledge to you the coalition part that we need in terms of raising that voice that needs to come from the American public that yes, this is an important issue and yet the dream of my house being my castle should be available to at least a good percentage of us. So I pledge to you that our organization and all of those networks that we have across the country will become your advocates.

Senator CRANSTON. Thank you. We can't get it done unless we have a lot of support like that.

Ms. LACAYO. We can raise a lot of help.

Senator CRANSTON. James.

Mr. WOOD. Senator, targeting has been used, but it seems that targeting is also a mechanism for competition. And that thing that I see facing us is the biggest problem is where do we start when we go to solve this problem.

You said that homelessness, any level of homelessness was unacceptable and yet the money available to solve the problem of home-

lessness means that we can't hit any of the other categories. It is a problem that would soak up all our resources.

So that I see the challenge for you from a political point of view of balancing between the levels that we mentioned that is the competing interest. Doing that in a fashion, that builds a national consensus. And for that you will have the homeless advocates arguing that you're not giving enough and that you're buying off the moderate income group.

It is a question of money and where we are going to spend it, and who we are going to spend it on. Whether it's tax incentives, whether it's new instruments, whether it's tax-free bonds, whatever it is, it's money and we have to discuss it in those terms.

Finally, pension funds are not public funds. They are for the benefixGof the individuals who worked for them and the benefits of those who accrued them. There are those of us who believe that raids on pension funds are another way of causing one segment of the population who had the guts and the determination and the ability to extract from their employers financial concessions for their futures.

None of these funds were set up willingly by employers and none of the employers contributed. Those employers who want to attack pension funds are also ones who want to reduce the number of people in them. I would caution that those of us who represent individuals paying their pension funds see them as benefiting the individuals who paid into them. That the public should assume the responsibility for providing for the public's good and not make a raid on our pension funds that were not given to us willingly in the first place.

Senator CRANSTON. Given the fact that we don't have limitless resources, how do you suggest we try to strike a balance between the needs of the homeless which are events and the needs of others?

Mr. WOOD. I think you are going to have to set up a quota system. I think you're going to have to make a decision on how you allocate the funds for the shelters and the permanent housing. They are fundamentally different enterprises. One has huge operating costs. A shelter is cheaper to build and more expensive to operate. All of the problems we have in housing the homeless are operating costs, not hard costs. On permanent housing we have to put our money into hard costs which can be fairly good mortgages.

But I see no way around making any cold-blooded decision that we are going to put 25 percent into homeless, 25 percent into very low, 25 percent into moderate. In each case we will help a different number of people. Those percentages are for discussion purposes only.

You can help more moderate income people with less money because a $10,000 or $15,000 one-time subsidy can buy someone a living unit. $15,000 does not house a single homeless person for a year. It's just a more expensive problem. So you spend more money helping fewer people.

One then has to face the fact that we have different needs. The need of a moderate income person to own their home versus the need of an individual for shelter tonight causes us to be willing to spend an unequal amount of money on them. That is a political

and moral decision that we are not going to have to make. Some of us are prepared to pay for it. But I think for you and the leadership that you will have to give, you will have to argue for the cut. I don't envy you that argument. It is an argument that is guaranteed to cause you problems no matter how you make the cut.

The fact that you are willing to discuss it as everyone here says makes us all feel that there is a sense of hope. Everybody else is simply saying privatize poverty. That's the way to deal with it. Let the private sector assume responsibility. If you make poverty affordable then you can solve the problem. We all know that that's not going to work.

Senator CRANSTON. One of the shocking aspects is that I've met people in homeless shelters and others of you who have explored in there have also found people there that have jobs. They are working but they can't afford any housing in the area where they are.

Mr. MAHAN. In L.A. it's 20 percent part-time and full time.

Mr. WOOD. There's a little problem called first and last month's rent.

Mr. Raubeson and I run a single-room occupancy housing corporation. One of the things we've been thinking about is that if someone gets a job we give them a break on their rent so that they can build up enough money to get out of your building. Since we operate vouchers, we would lose a little bit of money in the short run but we would actually be helping someone up and out. But it is a fundamental problem in a cut. The political decision and the moral implications are going to have to be faced. I see no way to escape it.

Senator CRANSTON. John mentioned the need to have general national goals not only in housing but in everything else so that you begin to prioritize what you are about.

Carmela, you mentioned building the coalition that you could help support.

We actually have to get into other issues not only transportation as it relates to housing but the arms race, what we spend on the military. I'm convinced that we are overspending on the military. I resist overspending even though sometimes we get into arguments about jobs in California as a consequence.

I believe that we have hope with the new leadership in the Soviet Union if we have new leadership here that could respond and maybe end this crazy arms race before it ends us. They have terrible economic problems in the Soviet Union. They have got to start coping with them. That's what Gorbachev is trying to do. We have them here. Imagine what we could do in both societies if we pulled this arms race and were able to start using the funds to build homes and transportation systems instead of bombs and bullets and all that stuff.

That's my highest priority really. It relates to this priority that I also have. We've got to work on that. We need help on that, too. Because Congress can't force it and the President can't do it and won't do it unless there is a public demand for action on that.

Herb?

Mr. TASKER. I think if you don't know where you are going it's pretty hard to get there. I think your idea of a national housing policy will give us a plan and a map to get there and a coalition like this can add a lot to that.

I certainly agree with John when you talk about HUD. I think HUD is a great vehicle to accomplish a lot of things that have been mentioned around this table. The fact that all its people have exited such a broken machine right now is a very sad thing when you think of the things we have accomplished in this country for middle income and lower income because we had a HUD and HUD policy.

So I think included in this should be, put HUD back together. Also included in that should be to let Fannie Mae and Dave Maxwell and Freddie Mac get off the defensive. They have created a lot of things that can be done in terms of multifamily housing and housing for the low income. But they can't be when they are forever being faced with either privatization or having limits put on their lending levels and things of that nature. So I think they have to be taken off the defensive.

I think the final thing is that in trying to have a national housing policy if we had tax incentives for low income housing in doing things for the needy and creating shelters, that would be one way of not taking it directly out of the Federal budget and creating a larger deficit which we are all concerned about at this table.

The final thing I would say is that I pledge the support to you, Alan, of the National Mortgage Bankers and the California Mortgage Bankers to do anything I can to help you create a National Housing Policy.

Senator CRANSTON. Thank you very much.

Derek.

Mr. SHEARER. On the homeless I think that your point, no level of homelessness is acceptable is one that is a confrontation of the Reagan years. I would hope that you might give serious consideration of being a sponsor of the Homeless Persons Survival Act which Congress is making legal and is introduced in the House which I think is still the strongest bill that immediately deals with the homeless problem and ties it into the housing issue. I don't know yet if it has Senate sponsors, but I hope you consider it.

Senator CRANSTON. I'll take a look at it.

Mr. SHEARER. On housing, I'll just reiterate my point, building its role for local community based housing groups, tie-in transit planning and Federal funding for transit projects and housing.

Finally, a point I haven't mentioned before. I think that the military housing program bears looking at by your subcommittee. We have quite successfully built housing for military and their dependents. We in particular used a very successful program of direct capital grants to do that, build almost ½ million very adequate housing units for the military. I think that that would bear a good case study for your subcommittee. So you might apply that to the low income housing issue.

Senator CRANSTON. Thank you. Your mention of the military reminds me of something that came up yesterday at the hearing we had in Washington where one witness suggested that since land cost is one of the worst aspects now of difficulty in providing adequate housing, that we try to get Federal land where it's available and appropriate and made available for this purpose to nonprofit entities. Two members of the subcommittee objected to that saying that (A) the military has needs for much of that land, and (B) there

are environmental needs that have to be met, too, with that land. Do you think that's a practical approach?

Mr. SHEARER. Yes.

Senator CRANSTON. Do you know any examples of Federal land around here that might be appropriately used for housing?

Mr. SHEARER. Oh, sure.

Mr. RAUBESON. Fort MacArthur.

Senator CRANSTON. Why don't you undertake to come up with some suggestions on Federal land here that is in appropriate places where there wouldn't be major community objection.

Mr. MAHAN. Don't limit the use of that land for that purpose. Look at it also from the standpoint that land is very valuable to be sold and proceeds put into that program.

Senator CRANSTON. Yes. That's another important point.

Mr. TASKER. We have a lot of land in San Francisco.

Senator CRANSTON. Rodney.

Mr. TASKER. It's underutilized and it would be an ideal location.

Mr. FERNANDEZ. First of all, I would like to just ditto the point that John brought out. I'd like to make an analogy. I think they've both worked hard and pretty soon we have a car that's not operating and we need to get it repaired and put some gas in it. Particularly I think there's a lot of programs there, particularly in farmers home, that are very, very good programs. But in the last 6 or 7 years they've just really been decimated. So I think that the first order of business should be to really take a look at how to correct what we've got.

Second, I put the words down "set target goals." I think that we have to look at it in that light and I think for me at least and my organization the very low and the low and home ownership are priorities.

The third point is that I think that we not only need to ask you to continue your leadership but I think all of us around this table and perhaps I see I think some media people in the audience back there undercover, maybe. I think we all have to take in the responsibility and share in being leaders in our own communities and continue to educate people back in our communities and look at this as a long-term commitment.

Senator CRANSTON. Thank you.

John.

Mr. SMOCK. Senator, I would echo the sentiments of those who have expressed the need for a national housing policy. I would differ somewhat from some of the comments with respect to the involvement of local community groups and efforts because in my judgment part of the problem as it effects rental housing particularly is a result of local community action that has resulted in the adoption of controls that are disincentives to the provision of adequate housing, particularly rental housing. It is a segment of the housing problem that is not going to be solved by Government fusion of money into those communities that adopt policies, no growth policies, control policies, though some people may disagree the first time the term has been used today, "rent controls."

Those are the kinds of policies that have been adopted in local communities that are disincentives to the provision of housing and the infusion of dollars by investors in rental housing. I think that a

national policy needs to give particular consideration to a very large segment of the communities that do rental housing.

So any national policy has to go out of its way to look very closely at the adoption of the Federal programs that will operate to override the interests that have been expressed in these no growth control committees that operate as a disincentive to the provision of housing by the private sector. The Government is not going to do it by itself without the involvement of the private sector. There needs to be an incentive given, whether it's tax incentive or other incentives, to the provision of rental housing. It's not going to happen until a larger constituency steps in to override the concerns of local entities.

Senator CRANSTON. Thank you.

Ira.

Mr. NORRIS. First the National Association of Home Builders would like to thank you for your effort in specifically the Senate bill 825.

It is obvious from this group there is no shortage of ideas. There are many ways to solve these problems but I think the real problem is political. Again, making housing a national priority in the Halls of Congress and in the administration is really what the tough job is.

I think you all know that the housing budget in 1980 was 5.3 percent of the Federal Budget. It is now 1.3 percent. We know that HUD's budget has been cut to 70 percent. The Tax Reform Act took $50 billion to $60 billion out of the housing and real estate industry. I am told that if every industry were to have been given the same cuts as the real estate and housing industry, this Nation would be operated above the surplus, which is interesting I think to comment on.

However, a survey company just completed a standard random sample of 1,500 plus registered voters of all 50 States and they felt the following information: that 66 percent of those voters feel that Congress should override the Presidental Veto of the housing bill. Seventy-nine percent agreed: Fifty percent strongly agreed, 29 agreed that the Federal Government has a responsibility to help the first-time buyer purchase a home and make credit available. And 58 percent of those surveyed believed that housing has taken a disproportionate share of cuts in the budget reduction process.

So it's obvious to us that the public is on our side. Private industry is on our side. I think our job is to educate Washington, DC, that this in fact exists. I think our job here is to come up with an idea as one, but two, to create an atmosphere in Washington to when those ideas are modified and put down on a piece of paper then we all agree that the people back there will vote for it and someone will sign it.

Senator CRANSTON. Right. It was demonstrated on the override of the highway veto what can be done when industries and labor and those who are interested in getting those funds for rapid transit and for highways mobilized and get in touch with the Members of Congress. You can do that aggressively in terms of affirmative action as well as in negative action.

Mr. SHINE. 13 republicans

Senator CRANSTON. Yes, right.

Leila.

Ms. GONZALEZ-CORREA. Before we come to programs which are housing for low income people there are things being done right now and will continue over the next few years if you don't stop it.

I ask that through your leadership we look into what HUD is doing, the plans that they have to sell units, and out of section 8 certificates and really try to stop this dismantling of this program which is so vital. Also we need help—I think the housing program works, but we need to revitalize it. We need to go back to the original intention of what the housing programs were, which were to be an aid for people who want it. But we have not been able to provide affordable housing we are talking about here today, so that through jobs and training we can move the people on and off.

We need to really look at the public housing programs because I think they work. It's just that they have not been made to work.

Senator CRANSTON. Jack.

Mr. SHINE. Well, I think that at the bottom line what we have is a monthly payment problem for renters and a down payment and a monthly payment problem for people who want to buy housing. Our objective is to figure out with the resources available how we can get the most number of people into the action as owners or at least with a roof over their head as renters.

I think the way we can do that is to leverage to the maximum extent possible the dollars that you are going to need to get from Congress, whether it's 12 or 15 or 20 billion or whatever. The way you leverage it is by using nonmonetary resources to add to the economic consequences that you can create.

Therefore, my suggestion is that we use as IRA suggested credit enhancement wherever possible perhaps with Freddie Mac or Fannie Mae or new instruments so that the credit rating of those instruments is such that investors will take less interest for their money and therefore we can charge less for our profit.

I suggest tax credits which has been suggested here as another vehicle for allowing local government or State Government to provide less than market financing for buyers, less than market interest rates financing for people who want to build units, multiple units for renters, in order that payments on those could be less, and that some correllation be attached to that credit enhancement for a tax advantage to the person developing the property so that there's a relationship between what they pay and what they charge for their product.

Senator CRANSTON. Good.

Joel.

Mr. SINGER. I have some difficulty coming up with something new.

We certainly think that the utilization of Federal money and a means to directly address the rental problem is crucial. You see that as a social policy issue and see it also as an economic issue to ensure eventual access to home ownership which we think is economic. In terms of how you do that once you have gotten beyond the situation where you are looking at those people who can now afford for alternatives beyond rental or home ownership. We think the issue there is a continued requisite by the Federal Government to real estate financing.

I do think we have to again look at a Federal charter for savings and loan, what role, what obligation and what, frankly, they need to have in terms of economic incentive to have that specialized role to provide for affordable rates.

Again we commend you on your services.

Dr. PAYNE. Thank you for the great job you did then and you continue to do and you know that you have our support. I think we need to hang in to that national motivation of most people to look at housing as a great need of our people. Everything that has been said here and we know you can do that.

Senator CRANSTON. Thank you very much.

Any of you who have been sitting over there have anything to add in 1 minute?

PERSON IN AUDIENCE. Senator Cranston, I represent the Senior Citizens Club at Angelist Plaza.

I'd just like to say that the whole thrust of what you are doing here is of vital concern to us. Along with our networking of other senior citizens on a county, State and national basis, we can rally a lot of troops and a lot of votes. You are going to need it. You are going to be there. We just hope that part of the campaign as you draft this legislation will be to help us in mobilizing the seniors and getting them fired up behind the much needed national policy.

Senator CRANSTON. That will have to be part of the task.

Anybody else? Yes.

PERSON IN AUDIENCE. Edna Bruce from the Human Development Division of the County of Los Angeles. We commend you for your efforts and your intention which we applaud. We're the housing authority of the county. We are also a redevelopment agency and a development agency as well as the distributor of the community development fund. So we have great interest in what is going on and thank you very much for coming.

Senator CRANSTON. Thank you a great deal.

I was struck by what both John and Herb had to say about not only programs of HUD being decimated, but HUD itself being decimated in terms of staff, talent, leadership, and so forth. I hadn't really thought that much about that. But that is going to be another major problem.

Do any of you have any bright thoughts as to who is going to be the next Secretary of HUD?

Mr. RAUBESON. Not Judge Bork.

Mr. WOOD. We for one are pleased with the transfer of talent from HUD to the community redevelopment agency. I for one have mixed emotions about cutting people loose.

Mr. SHEARER. Jim had one of his staff members speak earlier.

Mr. WOOD. By the way, that person was pointing at Santa Monica, not at the city of Los Angeles. He kept pointing at me.

Senator CRANSTON. He pointed at Derek.

Mr. SHEARER. He lives in one of Jim's buildings.

Mr. RAUBESON. He is a regular attendee at board meetings.

Mr. Wood. His teeth were actually getting larger.

Mr. NORRIS. Senator, I would only suggest that in answer to your question that the Secretary of HUD be somebody from the industry who has been there, who has done the job and not be a political appointment but be somebody else.

Senator CRANSTON. One thing we might be able to have some impact on is who will be the next Secretary of HUD. So start thinking about who would be the perfect person.

Did you have a comment also?

PERSON IN AUDIENCE. We feel that the problems, housing problems are very much locally determined. I don't think it should be disregarded when you make your Federal rules. The conditions in Los Angeles are quite different from—in California are quite different from the conditions in other States. We should consider that.

Senator CRANSTON. Yes, that will be done, absolutely.

Don, do you have any last minute remarks?

Don is doing an outstanding piece of work in organizing this and carrying the ball day in, day out, night and day and every minute.

If you have any comments to make, please go ahead.

Mr. CAMPBELL. Just several people asking for my card today. Those of you who don't have it because I walked off without a supply I discovered once I got here. We will have a sheet up here, and if you would like to stay in touch with us, just make sure you sign your name and address and we will stay in touch with you.

I find this a very helpful morning and I look forward to doing this again. We will have to do it on a regular basis in order to make sure we stay in touch with California people.

The objective that we have as we've been thinking about it fits very well. We need to come up with a bill that has a profile to it. I think that's one of the things that we've been missing in recent years. Most of the housing bills seem to be a grab bag of all sorts of little details that if you are really close to it, you know that section something or other and there are a whole bunch of sections mentioned in there. But anybody who is a member of Congress who doesn't spend all of his time focusing on this subject, it just looks like a blizzard. It's very hard for anybody to stand up and fight for it because it's very hard to understand what all this is about.

So the objective is going to have to be to come up with a bill that has a clear profile to it that is politically compelling. That means some manageable number of objectives and the discussions here that have been touched on, I think, some of those are those key ones. Some manageable number of objectives and some clear crosscutting themes as to distinguish how we are going to approach these bill's objectives this time around differently than we would have done 10 years ago or 20 years ago or 30 years ago because the situation is different.

I think that is going to be the packet that we are going to be struggling to. On both of those points, both the objectives and on those new crosscutting themes, the discussion here has been very, very helpful. This is only just the first step, obviously, but we are going to be working with you again over the months ahead. I really appreciate the chance to meet with you.

Senator CRANSTON. Thank you all very, very much, I've been stimulated and educated and I hope you have been, too.

[Certification of notary follows:]

STATE OF CALIFORNIA,
County of Los Angeles, SS:

I, Jennifer McMullin, a notary public in and for the County of Los Angeles, State of California, do hereby certify:

That said foregoing hearing was taken down by me in shorthand at the time and place therein named and thereafter reduced to computerized transcription under my direction.

I further certify that the foregoing is a full, true and correct transcript of said testimony and proceedings.

I further certify that I am not interested in the event of the action.

Witness my hand and seal this 21st day of July 1987.

JENNIFER A. MCMULLIN,
Notary Public in and for the County of Los Angeles, State of California.

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